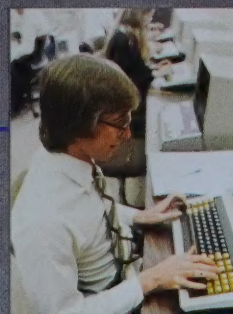
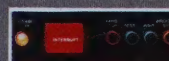
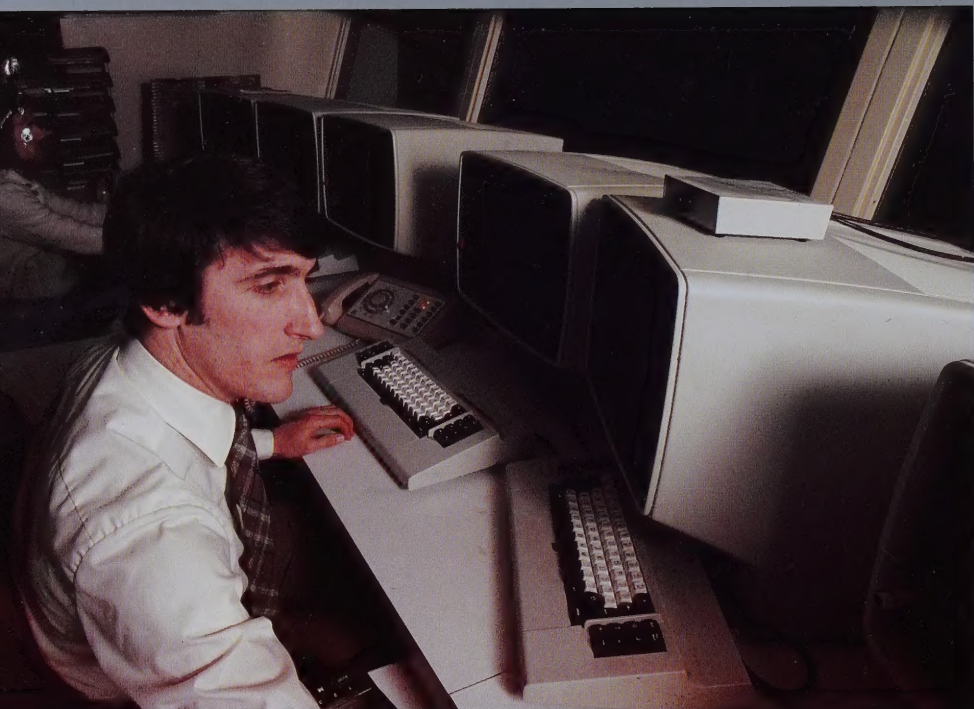




Annual Report 1980





President's Message

Revenue for the year increased by more than 47% over 1979, to almost \$78 million. Profits are also up, growing by 61% despite substantial investment in geographic expansion, new and enhanced services and new technology.

Setting the stage for our growth this year — and indeed for the decade ahead — was a major reorganization undertaken in February. We integrated a number of operating units and subsidiaries into the parent organization and restructured them into three line groups. These groups — the Processing Services Group, the Professional Services Group, and the Industry Services Group — are organized around our major service offerings and provide an effective vehicle for building on the company's strengths in people resources, breadth of services and range of markets.

The reorganization had as its goals three principal objectives: the creation of a single corporate image; the creation of a market-driven, rather than technology-driven, organization; and the provision of an environment for more delegation of decision-making within a corporate framework. The success of this approach is apparent in an accelerated momentum in our various marketplaces.

During the year, all three service groups embarked on an extensive program of geographic expansion and regional buildup. No fewer than seven out of 15 operating divisions established new branch operations, while most of the others expanded their regional marketing and support staff.

In the West, we opened a new processing centre, representing a \$6 million commitment to that region, and created about 30 new jobs. In

Quebec, we opened two new offices, and increased our local staff by 24%, contributing to a significant penetration into this key market. In the U.S., regional buildup has also played an important role in our success in the American

communication technologies, and to the continued development of a wide range of specialized services tailored for specific industry sectors. Towards this end, we continued to expand our industry expertise and further enhanced our



William B. Boggs
President and Chief Executive Officer

federal government and commercial markets. U.S. sources now account for approximately 10% of corporate revenue.

In addition to this regional expansion, we have also broadened the range of services we provide to all sectors of government and industry, but particularly those aimed at small to medium sized businesses. During the year, CSG intensified its commitment to the development and installation of minicomputer systems and associated services, and created a third minicomputer thrust with the introduction of the new line of CSG NUTAK computers. We believe our investment in minicomputer technology is among the largest being made by any North American computer services organization.

Our investment in other areas has been substantial as well. CSG committed considerable resources to the development and enhancement of online, interactive and data base services, to distributed processing, networking and

It has been a gratifying and successful year for CSG, characterized by vigorous growth, expansion and the achievement of key corporate objectives.

services to the scientific, engineering and financial communities.

People are the very essence of all the services CSG provides. During the year, we expanded a number of educational and personnel development programs to ensure that CSG will continue to meet the growing demand for data processing skills and expertise. A new program introduced in 1980 — the CSG Entry Level Training Program — enables individuals with no prior computing experience, but with suitable aptitudes, to become productive data processing personnel upon graduation.

At this time of year, as we reflect on the accomplishments of 1980, it is a pleasure to acknowledge the skill, professionalism and dedication of our staff; to thank them for their support, and reiterate our pride in them. In a very real sense, CSG's success has been their success.

A handwritten signature in dark ink, appearing to read 'W.B. Boggs'.

President
Chief Executive Officer.



The Processing Services Group provides a wide range of data processing services based on state-of-the-art IBM technology and fully supported by a highly competent technical staff. These include local and remote processing, interactive processing (time-sharing and online) and computer output services.

Demand for these services continued to grow during 1980, particularly for sophisticated online and data base systems. The volume of online applications processed at the Central Processing Centre in Mississauga increased by 40% in 1980 as CSG consolidated its position as the leader in the delivery of large scale and sophisticated systems.

It was also a year of significant regional and divisional accomplishments. In Calgary, the Western Region Processing Centre, was opened with extensive communication links throughout Western Canada and the U.S. This major new processing facility is only part of a vigorous expansion program undertaken by the Processing Services Group.

Commercial Marketing Division

The Commercial Marketing Division enjoyed a strong year with revenue growth of 25% over 1979.

New branch offices were established in Edmonton and Vancouver which, combined with the opening of the Western Region Processing Centre, enabled the division to market and support an expanded range of services throughout Western Canada and the United States. The response of the Western business community has been gratifying: revenues were up 50% in this region during 1980.

In the East, the division achieved a significant penetration into the Quebec market. The business base in this region more than doubled in 1980, and on the basis of business committed in 1980, will double again in 1981. Established only two years ago, the



J. Camsell Bright
Vice-President Processing
Services Group

Eastern Region has experienced accelerated growth through the provision of expanded service and support, most notably in data base technology.

The Central Region continued to enjoy sound growth through the continued confidence of existing customers and the attraction of new ones. Thirty-two major accounts, representing approximately half of this region's revenue base, renewed their agreements during the year, confirming CSG's reputation for delivering high calibre, cost-effective services.

Federal Marketing Division

CSG supplies processing services to the federal governments in Ottawa and Washington, and on these fronts as well, enjoyed significant growth, as evidenced by a 50% increase in revenue.

In Washington, the company was accredited under the U.S. Teleprocessing Services Program, entitling CSG to bid on U.S. government processing. Marketing and support staff was strengthened,

CSG consolidated its position as the leader in the delivery of large scale and sophisticated systems.

enabling the Washington office to triple its revenue base in its second year of operation.

With its strong technical expertise in interactive and data base solutions, the Ottawa office has been involved in a number of specialized solutions for the federal government that have implications for the commercial sector. One of the most important was the development of a job matching system for the government's National Job Bank. This system is based on the shared use of an IBM 8100 computer, which represents the leading edge in distributed data processing technology. CHOICES, a computerized career counselling system developed for Employment and Immigration Canada, is another new Ottawa offering with significant export potential.

Computing Services Division

CSG's growth has been accompanied by a corresponding increase in processing workloads. At the Central Processing Centre

in Mississauga, the weekly average number of RJE jobs increased by 25% while online transactions increased even more. During 1980, CSG/WYLBUR processing doubled and shared online production grew to more than 150,000 transactions per day.



Enhancements to the processing environment are an ongoing process at CSG and during the year a number of upgrades and improvements were installed. Memory on all three CPU's in Mississauga was expanded to accommodate the growth in online services. Network Job Entry, a significant upgrade to the operating system, was installed to facilitate the future interconnection and back-up of processing "nodes", or centres.

Network Services Division

More than 1500 terminals from across the continent access CSG's Central and Western Region Processing Centres — an increase of nearly 20% over the previous year. To meet this growth the Network Services Division implemented significant extensions



to the various CSG communication networks. New networks supporting the Western Region Processing Centre were installed, linking it to Western cities and to the processing centre in Mississauga. A Western U.S. network was implemented, permitting clients to access Calgary via a communications concentrator in San Francisco. CSG's low speed networks were also expanded to provide local dial access from more than 60 Canadian and 200 U.S. cities.

In addition, considerable development activity was undertaken to ensure that CSG would continue to meet customer needs with innovative data communications solutions. As part of this, work was concluded on the third phase in a multi-phase program implementing SNA, a major communications architecture.

Operator
Attention

System
Check

I/O
Interface
Check

Panel
Check

Wait

Power
On

5500

IPL

Test
Mode

Enter
Function

Reset /
IPL

Data / Function

0 /	1	2	3
4	5	6	7
8	A	B	
C	D	E	F

Processor
Test

ON 8 N
A 5 4

Secure

Enable

In any computing system, the critical factor is know-how. CSG provides this vital ingredient with the broadest range of people and professional services of any computing services company in Canada.

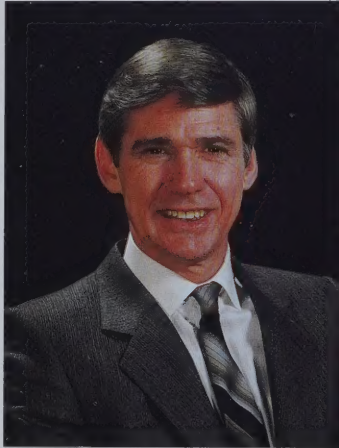
These services are supplied through the Professional Services Group, which in 1980 was restructured to meet the needs of the Eighties. As part of this, the various "people services" arms of the company were brought together into the Business Information Systems Division to provide significantly expanded programming, systems analysis, design, project management and consulting services. More than 200 professionals, with an average of five years experience, are now available, on an individual or team basis, to clients who may or may not be using CSG's Processing Services.

Similarly, all the elements of CSG engaged in the development of "high technology" solutions were merged into the Advanced Technology Systems Division. This division, which has long standing expertise in solving atypical or "one-of-a-kind" problems, specializes in developing minicomputer and microprocessor based systems for industrial control and technologically challenging applications.

The problems of the small to medium size business were also addressed with the expansion of CSG's minicomputer based offerings and the introduction of its third line of small business systems. CSG now markets and supports — as a single source supplier — a wide range of minicomputer systems to meet custom, general business and vertical industry requirements.

Business Information Systems Division

During 1980 the division executed more than 100 separate assignments, involving anywhere from one to twenty-five people.



David Herd
Vice-President Professional
Services Group

Among these were:

- a contract with Atomic Energy Canada Ltd. to design, develop and install several sub-systems related to the acquisition of experimental data from two nuclear reactors. Reliability was an important factor in the design of the systems and in the selection of CSG. An experiment can span many years; the loss of data at a critical time would require the reconstruction of the exact reactor state at the time of system failure, at a cost of many millions of dollars. Work on the project is proceeding reliably and on schedule.
- a contract for the design, development and installation of a massive data base system for a major transportation company. The system, which collects and analyzes marketing information from as many as 18,000 passenger

tickets a day, was completed within a tight six-week deadline — and on budget.

As part of the division's expanded national coverage, new offices were established in Montreal and Calgary.

In any computing system, the critical factor is know-how. CSG provides this vital ingredient with the broadest range of people and professional services of any computing services company in Canada.

Advanced Technology Systems Division

The services of CSG's high technology division met with broad market acceptance during 1980.

Major orders for the division's unique computer dispatch system were placed by an Edmonton taxi company and a Los Angeles trucking firm, for delivery in 1981. These contracts, valued in excess of \$1.2 million, were in addition to a similar project for Blue Line Taxi of Ottawa. Blue Line, which has 300 cabs on the CSG developed system, has contracted to implement the system in another 85 cars.

Work was also begun on two major development projects with a value of \$3 million. The first of these was a subcontract for Canadian Marconi under which CSG will develop all the software for a TELEX message switching system destined for the British Post Office. In the second project, CSG will assist Rapistan Inc. of Michigan in the development of a large

automated warehouse for the R. J. Reynolds Tobacco Company in North Carolina.

Other successes include the installation of the division's sophisticated Supervisory Control and Data Acquisition System

of DIGITAL equipment. During 1980, this section executed 15 projects of various sizes, all of which were delivered on time and on budget. Chief among these were the implementation of an additional five inventory control systems for use at Canadian Forces

Nutak is an Inuit word meaning "new" and this describes CSG's new family of minicomputers. The NUTAK line of minicomputer systems is a complete solution, especially suited to the needs of small to medium size businesses: hardware, software, maintenance and



(SCADA) for Scarborough Hydro and the sale of another SCADA system for a Calgary pipeline project.

Minicomputer Business Systems Division

CSG's minicomputer offerings are supplied through three marketing sections, each addressing specific market segments and needs.

The Digital Business Systems Section markets general business systems, custom turnkey and specialized industry solutions — such as its Property Management System — based on the full range

Bases, an order entry system for Stelco, and a number of sales in the property management field.

The Access Business Systems Section, with its emphasis on fully supported industry solutions based on the MICOS line of minicomputers, clearly established a significant position in several markets in its first full year of operation. For example, six Automotive Jobbers Systems were sold to leading parts dealers who enthusiastically endorse the system as the finest of its kind available. In all, sixteen Access Business Systems were sold or installed during the year.

ongoing support are all provided and warranted by CSG. Although it was created late in 1980, the Nutak Business Systems Section has already achieved important sales successes through recently opened offices in Toronto and Montreal.

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DUMP' MA.IEF142I ANNC22ST KO
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3 20 ... '0'4E..MA.IEF237I 70BBNAL
TO SYS01166' MA.IEF237I 710BLALL
O TOMACC' MA.IEF237I DMYBNALLOC
ALGFILE' MASIEF237I JES2 ALLOCAT
NTFILE' MASIEF237I JES2 ALLOCATE
TMONT' MA.IEF237I 1C9BNALLOCATED

The Industry Services Group combines people and machine resources to deliver value-added services specifically tailored for selected industry segments. These services marry computing expertise with intimate knowledge of the operations of particular industries.

CSG provides an extensive range of Industry Services through branch offices in major Canadian and U.S. cities. These services address the scientific-engineering, financial, wholesale distribution and education communities where CSG is firmly entrenched as a leading supplier of value-added solutions.

Multiple Financial Services

The provision of unique value-added services to the financial community made 1980 a very successful year for Multiple Financial Services. This division serves most of the chartered banks, major trust companies and the brokerage community with a complete range of administrative and processing services. These include support systems for term notes, registered savings plans, mutual funds, mortgage amortizations and investment plans. Particularly successful in 1980 was the term note service: revenues from this service increased by 92% over 1979.

Multiple Financial Services has established a solid reputation for developing quality services based on a detailed knowledge of the needs of its clients. For this reason, it was selected to develop a major new order management system for three leading brokerage firms. The system will employ a sophisticated dual processor system to relieve administrative bottlenecks during fast paced trading activity. The contract for the system, which was won in the face of competition from major U.S. and

Canadian suppliers, places CSG squarely in the forefront of this market.

Total revenue was up 30% over 1979, enabling the division to dramatically surpass what were aggressive targets.



Harry G. Porteous
Vice-President Industry
Services Group

Multiple Access Division (Canada)

The Multiple Access Division combines people expertise and the large scale capabilities of its Control Data computers to provide a wide range of services to the engineering and scientific communities. During 1980, these services were further expanded through the addition of several new software offerings and through major equipment upgrades at the division's data centre in Don Mills.

As part of a three year program that began in October 1979, the division installed a technologically advanced CYBER 720 computer and added a second batch processor, a CYBER 174. This doubled the batch capacity at the data centre and increased interactive capacity by 50%.

A number of new and expanded services were also introduced. Ten new engineering packages were added, bringing to more than 120 the number of structural and civil engineering applications offered.

CSG provides an extensive range of Industry Services through branch offices in major Canadian and U.S. cities. These services address the scientific-engineering, financial, wholesale distribution and education communities where CSG is firmly entrenched as a leading supplier of value-added solutions.

FIPAC, a financial planning, budgeting and forecasting system, was also rewritten to provide interactive and more user-friendly features. To be officially introduced early in 1981, FIPAC V joins SIMPLAN and other offerings in the CSG lineup of financial planning tools.

A very significant event this year was the conclusion of a major contract with Consumer and Corporate Affairs, granting CSG exclusive North American rights to market and process NUANS. NUANS is a computer name search system that compares a proposed corporate name against the more than two million names currently registered in Canada. The most advanced system of its kind, NUANS has significant export potential and is an important first step in establishing Canada as the centre of competence in worldwide corporate name search services.

Multiple Access Division (U.S.)

In addition to its Don Mills Data Centre, the Industry Services Group also operates a processing facility in Los Angeles, California,

providing a variety of computing services to West Coast clients in the insurance, aerospace and engineering communities.

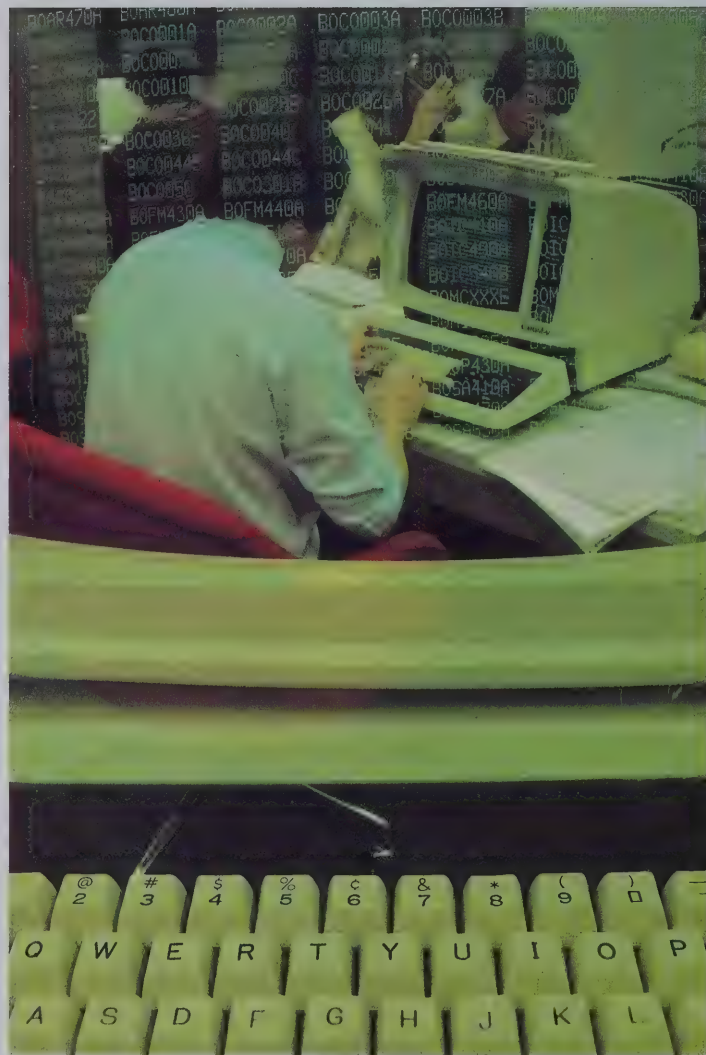
To better serve these clients, the first of two planned National Semiconductor AS-5 computers was installed during the year. As a result, processing capacity at the data centre doubled in 1980 and will be significantly expanded again with the installation of the second unit in March 1981.

Equally important, the division initiated a comprehensive program to expand its offerings to include a broader range of CSG services. As the first step, the complete suite of engineering and scientific services were made available in California. The migration of these services will enable the division to more aggressively pursue their key markets in the year ahead.

Keydata Canada

As in previous years, Keydata Canada took significant strides in consolidating its reputation as a leading supplier of specialized services to the wholesale distribution industry. More than a dozen new customers turned to the division this year for their unique, online business systems. These systems include order entry, invoicing, inventory control, sales analysis, purchase order control and the standard accounting packages.

Looking to the future, the division initiated significant development activity in 1980 on an expanded range of new wholesale distribution industry services. This was undertaken in recognition of the age of Keydata technology and



the difficulties encountered by Keydata's U.S. supplier. Accordingly, the division, building on its sound reputation in this market, is using the total resources of the company to launch new minicomputer based systems for its customers in 1981.

Cogito Division

The Cogito Division is a major supplier of educational data processing services, with offices in Princeton, New Jersey and San Francisco, California. During its 10 year history, the division has developed a comprehensive range of school administrative services including grade reporting, attendance, payroll and personnel management systems.

Demand for these services in the U.S. continued to grow during 1980, enabling the division to attract more than 100 new clients. The strongest growth occurred in the East where the revenue base doubled during 1980; however the division also achieved significant market penetration in the West through expansion of geographic coverage to Texas. Nearly 400 schools and school boards across North America use Cogito Division services.

Financial Highlights

The financial year ended December 31, 1980 was the most profitable in CSG's nine year history of continued growth. Consolidated revenues increased by 47% to \$77,885,000 and net income increased by 61% to \$2,010,000. The results for 1980 include the full year's benefit of the acquisition of Multiple Access in 1979.

The after-tax return on shareholders' investment increased to 31% compared to 26% in 1979.

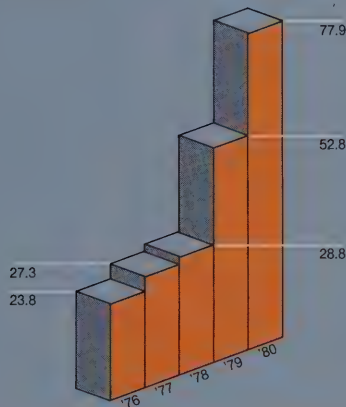
Cash generated from operations increased by 38% to \$9,500,000 enabling the company to reduce its long-term debt obligations by over \$3,600,000, and handle its normal requirements for capital expenditures while increasing working capital by nearly \$1,000,000.

Capital additions for new technology and the upgrading of equipment exceeded \$6,900,000 during the year.

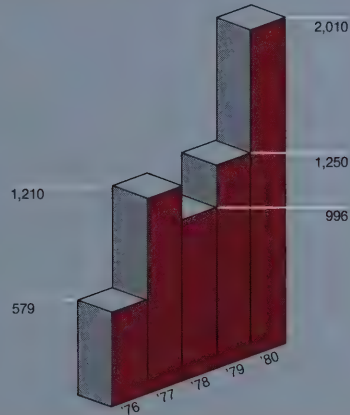
Digital Methods Limited and Multiple Access Computer Group Limited, both subsidiaries of CSG, were amalgamated with Canada Systems Group effective December 31, 1980.

In summary, the continued growth in revenues and income reflect the financial strength of the company, the quality of its operating assets and the dedication of the employees.

Sales
(\$ Millions)

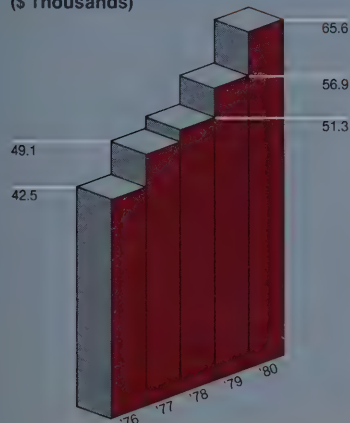


After-Tax Earnings*
(\$ Thousands)

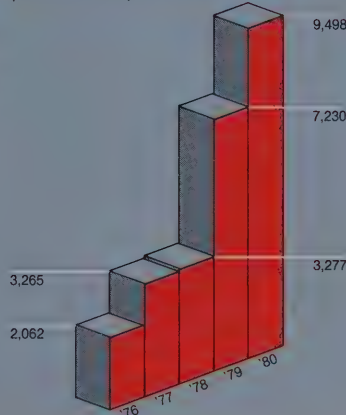


*restated for 1979 prior period adjustment

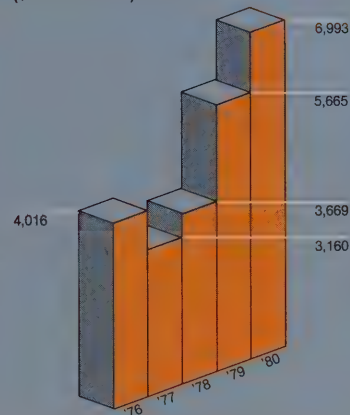
Sales Per Employee
(\$ Thousands)



Cash Generated
(\$ Thousands)



Capital Expenditures
(\$ Thousands)



Canada Systems Group Limited
Consolidated Balance Sheet
As At December 31, 1980



	1980	1979
	(thousands of dollars)	
Assets		
Current Assets		
Cash	\$ 136	\$ 181
Accounts receivable	18,837	15,445
Income taxes recoverable		50
Inventory	1,430	1,210
Prepaid expenses	841	982
	<u>21,244</u>	<u>17,868</u>
Fixed Assets (note 2)	16,783	13,244
Equipment Under Capital Leases (note 2)	<u>5,179</u>	<u>7,385</u>
Other Assets		
Deferred charges	1,896	1,947
Goodwill	2,370	2,679
	<u>4,266</u>	<u>4,626</u>
	<u>\$47,472</u>	<u>\$43,123</u>
Liabilities		
Current Liabilities		
Bank indebtedness (note 4)	\$ 5,889	\$ 6,283
Accounts payable and accrued liabilities	6,996	7,149
Income taxes payable	1,013	
Current portion of long-term debt	3,464	1,324
Current portion of capital lease obligations	1,804	2,010
	<u>19,166</u>	<u>16,766</u>
Long-Term Debt (note 5)	15,651	14,509
Capital Lease Obligations (note 6)	<u>3,247</u>	<u>5,053</u>
Deferred Income Taxes	1,757	1,254
Minority Interest in Subsidiary	<u>240</u>	<u>140</u>
Shareholders' Equity		
Capital Stock (note 7)		
Issued		
2,250 Preferred shares	2,250	2,250
4,500 Common shares	3,002	3,002
	<u>5,252</u>	<u>5,252</u>
Retained Earnings	2,159	149
	<u>7,411</u>	<u>5,401</u>
	<u>\$47,472</u>	<u>\$43,123</u>

On behalf of the Board:

Director

Director

Canada Systems Group Limited
Consolidated Statement of
Income and Retained Earnings
Year Ended December 31, 1980

	1980	1979
	(thousands of dollars)	
Revenue	\$77,885	\$52,823
Operating, Marketing and Administrative Expenses (note 3)	70,150	47,501
	7,735	5,322
Other Expenses		
Goodwill amortization	309	233
Interest — Bank indebtedness	734	551
— Long-term debt	2,562	2,366
	3,605	3,150
Income Before Undernoted Items	4,130	2,172
Income taxes (note 8)	2,288	1,258
	1,842	914
Minority interest	100	29
Income Before Extraordinary Item	1,742	885
Extraordinary Item		
Recovery of income taxes	268	365
Net Income For The Year	2,010	1,250
Retained Earnings (Deficit), Beginning of Year	149	(1,101)
Retained Earnings, End of Year	\$ 2,159	\$ 149

(See accompanying notes)

Canada Systems Group Limited
Consolidated Statement of Changes
in Financial Position
Year Ended December 31, 1980

	1980	1979
	(thousands of dollars)	
Working Capital Provided From		
Operations	\$ 8,424	\$ 6,865
Additions to long-term debt	4,902	8,187
Additions to capital lease obligations	222	1,167
Proceeds on sale of fixed assets	806	
Recovery of income taxes	268	365
	<u>14,622</u>	<u>16,584</u>
Working Capital Applied to		
Purchase of fixed assets	6,814	2,412
Reduction of long-term debt	3,760	1,141
Reduction in capital lease obligations	2,028	1,962
Additions to equipment under capital leases	179	1,315
Additions to deferred charges	865	653
Acquisition of shares of subsidiaries		4,361
	<u>13,646</u>	<u>11,844</u>
Increase in Working Capital	976	4,740
Working Capital (Deficiency), Beginning of Year	1,102	(3,638)
Working Capital, End of Year	<u>\$ 2,078</u>	<u>\$ 1,102</u>

(See accompanying notes)

Auditors' Report

To the Shareholders of
Canada Systems Group Limited:

We have examined the consolidated balance sheet of Canada Systems Group Limited as at December 31, 1980 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Mississauga, Canada,
February 10, 1981.

Chartered Accountants

Canada Systems Group Limited
Notes to Consolidated
Financial Statements
Year Ended December 31, 1980

1. Accounting Policies

The consolidated financial statements include the accounts of Canada Systems Group Limited and its subsidiaries, all of which are in the computer services industry. These financial statements have been prepared by management in accordance with generally accepted accounting principles applied consistently with the previous year and, in management's opinion, have been prepared within the limits of materiality and within the framework of the accounting policies summarized below:

(a) Fixed assets

All fixed assets are valued at cost and depreciated over their useful lives on a straight-line basis as follows:

Building	3%
Furniture and fixtures	10 to 20%
Computer equipment	16 to 20%
Leasehold improvements	Over term of lease

(b) Leases

Leases which meet certain criteria whereby substantially all of the benefits and risks incidental to the ownership of the property are transferred to the company are classified as capital leases. Computer equipment under capital lease is capitalized at the present value of its minimum lease payments and depreciated on a straight-line basis ranging from five to ten years depending on the useful life of the equipment.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

(c) Inventory

Inventory, consisting primarily of contracts-in-process, is valued using the percentage of completion method and accordingly, represents the net realizable value of accumulated costs less billings to date.

(d) Deferred charges

Deferred charges, consisting principally of the cost of magnetic tapes, disks and software, are amortized on a straight-line basis over various periods not exceeding five years.

(e) Goodwill

Goodwill represents the excess of the cost of shares of subsidiaries over the fair value of their net assets at dates of acquisition and is amortized on a straight-line basis over a ten year period.

(f) Deferred income taxes

The company follows the tax allocation basis of accounting. On this basis, the effect on income taxes of timing differences between income as reported in the financial statements and income for tax purposes is reflected as deferred income taxes.

2. Fixed Assets and Equipment Under Capital Leases

	1980		1979	
	Cost	Accumulated depreciation	Net	Net
Land	\$ 507,000		\$ 507,000	\$ 507,000
Building	5,759,000	\$ 1,642,000	4,117,000	4,190,000
Computer equipment	15,826,000	5,412,000	10,414,000	7,041,000
Furniture and leasehold improvements	3,273,000	1,528,000	1,745,000	1,506,000
	\$25,365,000	\$ 8,582,000	\$16,783,000	\$13,244,000
Computer equipment under capital leases	\$15,546,000	\$10,367,000	\$ 5,179,000	\$ 7,385,000

3. Depreciation and Amortization

Depreciation of fixed assets and equipment under capital leases of \$5,078,000 (1979 — \$4,266,000) and amortization of deferred charges of \$916,000 (1979 — \$679,000) have been included in the statement of income and retained earnings.

4. Bank Indebtedness

Bank indebtedness includes demand loans of \$4,789,000 secured by a general assignment of book debts.

5. Long-Term Debt

	1980	1979
9% first mortgage, due October 21, 1996, payable \$37,000 monthly, blended principal and interest	\$ 3,814,000	\$ 3,919,000
Bank loans, bearing interest at 1% above bank prime rate, payable in three annual instalments	2,344,000	3,126,000
Bank loans, bearing interest at 1% above bank prime rate, payable in twenty quarterly instalments commencing in 1981	7,353,000	7,353,000
Bank loan (\$287,000 U.S.), bearing interest at 2% above U.S. bank prime rate, payable \$12,000 monthly, blended principal and interest	342,000	478,000
Due to former shareholder of subsidiary, non-interest bearing	67,000	133,000
Conditional sales contracts, bearing interest which approximates the bank prime rate, payable in monthly instalments over four years	5,195,000	824,000
	19,115,000	15,833,000
Less current portion	3,464,000	1,324,000
Long-term portion	\$15,651,000	\$14,509,000

The company has pledged a general assignment of book debts as collateral for the bank loans. In addition, the bank loans of \$2,344,000 are supported by chattel mortgages on certain computer equipment.

Principal repayments due on long-term debt within each of the next five years are as follows:

1981 —	\$3,464,000
1982 —	3,453,000
1983 —	3,380,000
1984 —	4,059,000
1985 —	1,633,000

**Notes to Consolidated
Financial Statements
(continued)**



6. Capital Lease Obligations

The future minimum payments under capitalized leases, of which approximately one-half has fixed interest

rates varying from 8-1/2% to 10-1/2% and the balance has floating interest rates which approximate bank prime, are as follows:

1981	\$2,273,000
1982	2,260,000
1983	1,049,000
1984	331,000
1985 and subsequent years	16,000
	<hr/> 5,929,000
Less amount representing interest	878,000
Capitalized lease obligations	<hr/> 5,051,000
Less current portion	1,804,000
Long-term portion	<hr/> <hr/> \$3,247,000

7. Incorporation and Capital Stock

The company has been continued under the Canada Business Corporations Act. The authorized capital of the company consists of 3,000 voting preferred shares without par value, each entitled to a non-cumulative dividend of \$75 per annum and redeemable at \$1,000, and an unlimited number of common shares without par value.

8. Income Taxes

Income taxes provided in the statement of income and retained earnings of \$2,288,000 (1979 — \$1,258,000) include current income taxes of \$1,785,000 (1979 — \$73,000) and deferred income taxes of \$503,000 (1979 — \$1,185,000).

Two of the company's wholly-owned U.S. subsidiaries have losses for income tax purposes totalling \$2,162,000 which are available to offset future taxable incomes and expire during the years 1983 to 1988.

9. Transactions With Related Parties

The services sold by the company to shareholders are provided at normal trade terms and are included in revenue. During 1980, these services amounted to \$17,150,000 of which \$2,301,000, all due within thirty days, was owing at year end.

10. Pension Plan

The company has pension plans covering substantially all of its employees. Under the plans, the company is required to pay the difference between the present value of the pension benefits and the members' required contributions. In 1980, after the recognition of a surplus of \$690,000 based on actuarial valuation of the plans as at January 1, 1980, the total pension costs amounted to \$205,000 (1979 — \$14,000). The company currently has no liability for past service costs.

11. Commitments

Under the terms of a Technical Assistance Agreement with TRW, Inc., the company is committed to pay, in respect of "know-how assistance", a maximum aggregate amount of \$1,775,000 during the term of the agreement which expires on December 31, 1981. Of this amount \$1,667,000 has been accrued in the accounts and \$1,222,000 paid to December 31, 1980. Of the remaining balance to be paid of \$553,000, the maximum payment for 1981 is \$320,000 and the balance then remaining is due and payable on or before June 30, 1982.

The company presently leases certain of its computer equipment and office premises under operating lease contracts which require minimum annual rental payments for each of the next five years as follows:

1981	\$5,736,000
1982	5,527,000
1983	4,856,000
1984	4,303,000
1985	1,279,000
Thereafter	737,000

12. Contingent Liability

In 1980, a writ was issued by a customer against the company alleging damages arising from an agreement, entered into in prior years, for the development of an information processing system. Provision has not been made in the financial statements for the amounts claimed, although substantial, as management believes the allegations are not valid.



Directors

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The T. Eaton Company Limited

William B. Boggs

President and Chief Executive Officer
Canada Systems Group Limited

Walter H. Burkhiser

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Gulf Canada Limited

Robert E. Heneault

Vice-President Administration
Stelco Inc.

Morgan C. Payne

Senior Vice-President Finance
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Elbert E. Walker

Vice-President and
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H. J. Michael Watson

Vice-President Finance
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Chairman of the Board of Directors

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Keith I. Aling

Vice-President Finance and
Administration, Secretary

William W. Beairst

Vice-President Marketing and
Corporate Development

J. Camsell Bright

Vice-President Processing
Services Group

David Herd

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Harry G. Porteous

Vice-President Industry
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Bankers

The Bank of Montreal
The Toronto-Dominion Bank

Auditors

Clarkson Gordon



Canada Systems Group

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